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FM AMEMBASSY MONTEVIDEO  
TO RUEHC/SECSTATE WASHDC PRIORITY 5219  
INFO RUCNMR/MERCOSUR COLLECTIVE  
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**C. 05 MONTEVIDEO 1428**

## Reactions

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12. (SBU) It's the summer doldrums here and many folks are vacationing on the beach, including Minister Astori who sparked the whole flap. Nevertheless, the local media has succeeded in finding a hot story over whether Uruguay should negotiate an FTA with the US. Folksy AgMinister Mujica contributed to the chorus of opinions by saying in an interview that, "'Mercosur is not worth a damn'" because of the undeclared war"' launched by Argentina over paper mill construction in Fray Bentos. Mujica also reminded listeners that the 2002 bank run ("corralito") that began in Buenos Aires, dragged Uruguay into its worst financial crisis in recent years. (Note: Mujica avoided mention of Argentina's role a few year's back in allowing hoof and mouth infected cattle to contaminate Uruguay's livestock, but it seemed clear in his interview that Mujica connected the paper mill dispute to Uruguay's need for diversified trading partners. End Note.)

13. (SBU) The weekly "'Busqueda"' also reported an excerpt from a December 29 meeting in which President Vazquez told former (Blanco) President Luis Alberto Lacalle that he was disappointed"' with Nestor Kirchner over the pulp mill affair. (Note: We understand that Vazquez will be in La Paz for two days attending Evo Morales' January 22 inauguration, but will not meet with Kirchner on this issue. End Note.) The same article highlighted previous quotes from Vazquez in which he said, "'The US buys the most and the best. Last year it bought \$447 million. I hope it buys \$800 million.."' (Note: The US is a bigger client for Uruguay than Argentina and Brazil combined. End Note.)

14. (SBU) ForMin Gargano was the first Uruguayan to dash cold water on Astori's pro-FTA remarks. As president of the Socialist Party, he has called a party meeting for January 13 to debate the issue. Local pundits said Gargano's opposition was to be expected (though Industry Minister Lepra, Tourism Minister Lescano and others sided with Astori.) But they considered statements by GOA Undersecretary for Latin American Integration Eduardo Sigal and other foreign officials to be more serious because they called into question the "'legality"' of such a move within Mercosur by citing the Ouro Preto Protocol and 2000 Decision No. 32 purportedly banning "'bilateral commercial treaties with third countries.'" However, an editorial in the daily "'El Pais"' entitled, "'the Ultimate Impertinence"', pointed out the hypocrisy"' of this argument by highlighting that Argentina and Brazil have signed 20 commercial bilateral accords with other countries (as well as a "'market accord"' with China) without prior Mercosur consultation. The same author maintained that Argentina's paper mills on the Parana river are its major source of pollution.

15. (SBU) There has been plenty of incoherence as well. MPP Senator Jorge Sarvia was quoted assaying, "'I'm not in favor of the FTA, even though it benefits Uruguay but because I'm for Mercosur and against FTAA.'" (!?)

16. (SBU) Brazilian Foreign Minister Celso Amorin was also quoted in the media as saying on January 11 that "'It would be impossible for a member of Mercosur to individually negotiate commercial agreements, unless it intended to leave the trading bloc, a decision we haven't been informed about.'" Amorin's reported comments appeared to soften when he added, If Uruguay feels that Mercosur hasn't produced enough benefits...maybe it is because we haven't done enough."

Comment:

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17. (C) The GOU has gotten a lot of attention focused on the FTA issue and has rightly succeeded in exposing Mercosur's canard about its treatment of junior partners. But this is a high-stakes game for Vazquez because of the size and strength of his opposition and worries that Argentina could affect the pulp mills financing. Still, Vazquez probably calculates that it is better to air Uruguay's gripes over Mercosur publicly by using the FTA debate. From our vantage point, the FTA flap represents another opportunity for the USG to

engage Uruguay at a high level. We expect that 2006 will be a critical year for Vazquez in which he needs to show economic results. As an Evo Morales-led Bolivia prepares to join Mercosur as a full member, it is also probably in our interest to lend a helping hand to GOU that is struggling to emulate a moderate Chile rather than a Bolivarian Venezuela.

End Comment.

Nealon